Economics Chapter 2 Notes

Why economic models? They assist economists in analyzing \_\_\_\_\_\_\_\_\_\_\_\_\_ and their \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

They serve two purposes:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: Simplified representations of how various factors influence our choices.
2. Assist economists in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ future events.

Types of Economic Models:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ model or schedule – shows simple relationships between pairs of variables in the form of a table, limited to a few observations.
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – reveals more data (plot points on a graph, then connect the dots)
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (PPC) – allows economist to see the maximum feasible amounts of two commodities that a business can produce when those two items are competing for that business’s limited resources.

**Circular Flow Model**: a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ explanation of how a complete \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economic system functions.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: all the goods and services businesses produce in one year.

GDP flows into \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_; Households \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ those goods, so \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ expenditures flow from households to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: resources used by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to produce goods & services; received from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. \_\_\_\_\_\_\_\_\_\_\_- all the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that go into the production of goods.
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_-all \_\_\_\_\_\_\_\_\_\_\_\_\_ effort that goes into creating goods & services.
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Goods used to produce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – money households loan to business
5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ businesses use to produce their goods & services
6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- activity of creatively combining natural resources, human labor, and capital in unique ways to develop \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ goods and services. **The most important factor of production**.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: Payments businesses make to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in return for the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_-

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- all payments for the use of an owner’s property
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- payments for labor
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- payments business firms make on borrowed money
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- difference between revenues received from the sale of a product and the cost of the land, labor, capital that went into its production. The rewards entrepreneurs receive for successful risk-taking.

**Entrepreneurs** must

1. Identify an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Create a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to meet the need
3. Produce it at a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ lower than the price buyers are willing to pay.
4. Be able to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- the product to customers

**GOVERNMENT AS AN ECONOMIC ENTITY**

Government refers to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of civil government, including federal, state, and local authorities.

Government incurs \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, purchasing goods and services from businesses.

Government makes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to households. (Payments of money or goods to persons for which the government expects no specific economic repayment – social security, welfare, unemployment, medicare)

Government imposes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on HOUSEHOLDS & BUSINESSES.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: when the government spends more than it takes in.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: when the government takes in more than it spends.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- the collection of the nation’s financial institutions that receive deposits of excess funds **from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** and lend those funds **to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**.

Principle Function of the Financial Market: to circulate money from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ effectively and efficiently. (Includes commercial banks, savings and loan associations, credit unions, insurance companies, finance companies, and stock brokerage firms.)

Households both \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Dissaving is when a household \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ money from an account or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ it.

“Ideally, all \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the financial market should be available to business firms, but the government often diverts some of the funds to itself to finance its budget \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.”

Ludwig von Mises

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Sector: households, business firms, financial institutions.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Sector: Government(s)

See Producing Ohio (comprehension quiz) and Economics Interactive links on desktop.